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C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 005512

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TAGS: [IR](#) [ECON](#) [EFIN](#) [ELAB](#)
SUBJECT: IRPO: IRAN'S MINIMUM WAGE INCREASE DISASTROUS

REF: DUBAI 5421

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CLASSIFIED BY: Timothy M. Brys, Acting IRPO Chief, Dubai, UAE.
REASON: 1.4 (c), (d)

1.(U) This cable has been coordinated with ConGen Dubai.

2.(C//NF) Summary: Iran's government recently put into affect a mandated increase in the minimum wage, aimed specifically at Iran's many contract workers. The increase has reportedly had a disastrous affect on those it was actually meant to help, and has exacerbated Iran's already dire unemployment problems. End summary.

3.(SBU) In March, workers' representatives, employers, and government officials set the minimum wage for the new Iranian year after intense negotiations. According to Siyasat-e Ruz (a conservative Farsi language daily), the minimum wage for the current Iranian year was determined in two ways. First, the government announced that the minimum wage for permanent employees or those with unlimited daily contracts was to be increased by 10 percent over the previous year plus an additional 5,000 rials (aprox. 55 cents) per day. After the first announcement, the government issued what amounted to a correction, setting the daily minimum wage for permanent employees at 50,000 rials (5.46 USD), while the daily wage for workers with short-term contracts became 60,000 rials (6.55 USD). Article 41 of Iran's Labor Law stipulates that the minimum wage of workers should be increased in line with the annual inflation rate announced by Iran's Central Bank -- 12.1 percent in 2005 (Ref). To date, wage hikes have fallen far short of the inflation rate.

4.(SBU) The Iranian government did not increase the minimum wage for workers in Iran for the first decade after the Islamic revolution in 1979. The poverty line rose with inflation, surpassed the minimum wage, and opened an ever-widening gap. According to official figures for the previous Iranian year, the minimum wage per month was set at 1.22 million rials (approx. 130 dollars), while the official poverty line is approximately three million rials (approx. 330 dollars) per month.

5.(SBU) The decision to raise the minimum wage has been widely criticized. In an open letter to President Ahmadinejad in June, 50 Iranian economists condemned his administration's "unmethodological interference" in the labor market. They specifically blasted the government's decision to raise the minimum wage for setting employees against employers, stating

that "confrontation is not in anyone's interest." The economists suggested: 1) reducing inflation to 10 percent; 2) increasing wages in proportion to inflation; and 3) improving workers' benefits. A member of the Majles Economic Commission admitted in June that 12 percent of those currently employed were expected to lose their jobs following the wage increase, according to Iran Daily (conservative English-language news website).

6.(C//NF) The mandated wage increase is already adversely affecting workers, employers, and overall unemployment numbers, according to anecdotal information and Iranian press. In addition, a number of Iranian press reports indicate that employees with short-term contracts have been hit the hardest by the wage hike as their pay increase outpaced workers with permanent contracts. The head of a cement factory in Iran told Conoff in late July that the wage increase has had dire consequences for businesses in Iran. He explained that 35 factories and industries in Karaj, a city west of Tehran, have closed because they cannot meet the new mandated wages for their employees.

7.(C//NF) According to a businesswoman from Tehran, Iranians are being laid off "wholesale" as a result of the mandated increase in salary, especially contract employees. She said that a hospital in Tehran has laid off 500 employees due to the burden of increased salaries. According to Iranian press reports, mass layoffs across the country followed the mandated wage increase. Although the Labor Minister claimed the number of layoffs was insignificant, Siyasat-e Ruz reported on 10 June that during the period of 20 March to 20 May, 50,737 workers lost their jobs, approximately a 21 percent increase over the same period from the previous year. According to a recent Iran Daily (an English-language news website) article, the rapporteur of the Majles Social Commission asserted that some lawmakers believe that the increase forced employers to dismiss almost 200,000 workers.

8.(C//NF) Iranian employers claim that wages have risen 60

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percent, which they can ill afford, according to Iranian press. Many employers are faced with the dual dilemma of having to pay their employees higher wages while not being able to raise the prices of their products under the fixed-price law passed by the conservative-controlled Majles. Continued pressure from increased salaries and fixed-prices for their products could force more Iranian employers out of business.

BRYs